



TRADE WAR

It is never boring in the Balkans. Negotiations between Belgrade and Pristina, although no one believed in their success, have given the first results. This success has been achieved thanks to the patience of negotiators as well as mediators, and mostly due to the fact that for the beginning easier and manageable issues were chosen so that both sides gained the trust of one another and understood that the agreement is possible. When everyone expected negotiations to continue, which were scheduled for July 20 and 21 in Brussels, and for which agreements in four areas were announced – they were postponed. Before postponement of negotiations the consent on three agreements was reached - the registers, the freedom of movement and recognition of degrees. When the European Union (EU), in early July, welcomed the progress with a special statement, it did not fail to recall that the agreements will **"take effect as soon as they become operationally feasible,"** and that both sides were **"strongly committed to adhere to the agreed"** . On this occasion, the EU announced that the two sides **"agreed on closer telecommunications, cadastre, customs seals and energy."** It was a task that the negotiators should meet at the next, postponed, rounds of negotiations. The news that the continuation of negotiations was postponed meant there was a problem and that mediators did not want to risk failing to reach the agreement.

Head of the Pristina team **Edita Tahiri** blamed Serbia for the postponement of negotiations **"because it did not demonstrate willingness to accept a free trade agreement, or to recognize Kosovo customs stamps"**, which according to her, **"the European Union recognizes"**. Belgrade accused Pristina for postponing of the negotiations, which according to the head of the Serbian team **Borko Stefanovic** **"requests displaying elements of statehood, which is unacceptable for Serbia."** Immediately afterwards, the Kosovo Government decided to **"ban the import of products from Serbia to Kosovo."** This measure of the Kosovo government which were supposed to help Pristina to put pressure on Serbia, provoked new tensions. The consequences can be devastating not only for the achieved agreements, but also for security in the region. It is clear that the Kosovo government, which does not have full sovereignty, did not bring the decision to ban imports of goods from Serbia independently, or that at least one of the powerful independence sponsors agreed with this act. This was pointed out in the first reaction of Serbian President **Boris Tadic**, who said that behind this decision of the government in Pristina are **"foreign sponsors"**. If it is clear that the decision to ban imports of goods from Serbia was made outside of Pristina, the question is where did this happen? In Washington or Brussels?



The statement of the Assistant Secretary of State **Thomas Countryman**, who said **"that he regrets that the government in Pristina has introduced a ban on imports of Serbian goods,"** and that **"Serbia started the same kind of embargo on goods from Kosovo two and a half years ago,"** which is, as he said, **"illegal under the CEFTA agreement,"** confirms that the U.S. administration, at least, did not have anything against the decision of the Government in Pristina. And what is the position of Brussels? Brussels has not yet given the official reaction, suggesting that the EU has no common position on this issue. Officials close to EU foreign and security policy Catherine Ashton, brought a prominent Serbian news agency Beta that even before September a chance should be given to dialogue between Belgrade and Pristina, and not to implementation of the embargo. In the EU, **"the decision of the government of Kosovo is being studied,"** these sources added. **"The EU continues to believe that unilateral actions and measures do not solve the problem,"** stressed the EU officials. They underlined that **"it would be better to give a chance to dialogue Serbia - Kosovo in early September, or even before, before implementation the embargo."** One gets the impression that Brussels is surprised by the decision of the Kosovo Government. However, the question is whether all EU members were surprised by this decision among which there are countries that strongly support the independence of Kosovo? What is wrong with the recognition of customs seals?

During last round of negotiations Serbia agreed to recognize Kosovo stamps, with **"Kosovo Customs"** at them, because it believes that such a name does not reflect Kosovo's statehood. Kosovo authorities insist that the seal says **"Customs of the Republic of Kosovo"**. If we know that the problem between the two sides is terminological and therefore solvable, the question remains why the Government of Kosovo is allowed to resort to extreme move? The impression is that some international circles want to solve the issue of recognition of Kosovo's independence through the recognition of customs seals. Those who encouraged the Kosovo Government to make such a decision will hardly find a better moment. The ruling coalition in Serbia is getting ready for the regular parliamentary elections to be held in spring next year. The issue of Serbia's European integration and the status of candidate for EU membership is the backbone of the campaign of President Tadic's party. The crisis in relations with Kosovo is moving Serbia away from candidate status, and therefore it is estimated that the ruling coalition in Serbia will have nowhere but to accept Kosovo stamps. In addition, the biggest problem Serbian authorities have is a difficult economic situation in the country. The decision of the Kosovo Government causes serious economic damage to Serbia, to be sure that the government will not be able to afford that luxury in an election year. Authorities in Pristina have been trying to ban import of Serbian goods into Kosovo for two years, precisely since the unilateral declaration of independence of this southern Serbian province.



The Kosovo Government is convinced that such a measure that would inflict economic damage to the Serbian economy would also be a pressure on Serbia to recognize Kosovo, or at least to recognize Kosovo customs stamps. Government officials in Pristina have repeatedly announced that decision, but it did not have the support for such action of either the U.S. or EU. Now the circumstances have changed. The Kosovo Government is right when it estimates that the decision to ban import of Serbian products harm to Serbia. The Serbian Chamber of Commerce believe that this decision may cause damage to the Serbian economy up to 500 million euros annually. The trade exchange between Serbia and Kosovo in the first four months of 2011 amounted to 121.57 million, an increase of 14.3 percent over the same period last year. From Serbia, the delivered goods worth 121.3 million dollars, and supplies from Kosovo have increased by 5.1 percent and amounted to 0.27 million. Commodity Exchange in 2010. amounted to 395.23 million dollars and 16.8 percent higher than in 2009. Deliveries from Serbia were worth 391.2 million dollars, and purchase from Kosovo about four million dollars. When estimating value of trade one should have in mind that it is higher than figures show. Official statistics do not record all the trade between Serbia and Kosovo, because it did not cut off the illegal trade channels (which take place across the north of Kosovo, populated by Serbs, as well as across neighboring Montenegro). This illegal trade has the largest share in cigarettes, gas, medicines, food and cement. Kosovo does not import - export imbalance with Serbia only.

In 2010. only 13 percent of the value of goods that were exported from Kosovo were imported into Kosovo. According to official data of Kosovo Customs, exports of goods from Kosovo were almost 300 million euros, while imports of foreign goods were at about 2 billion euros. "Export" of Serbia in Kosovo is 7 percent of total exports of this country. The most significant deliveries of goods in Serbia to Kosovo are electricity, wheat, sugar, tegular roofs, food, diesel fuel, crude oil, paper, paperboard and drugs. In the export of Kosovo to Serbia the largest share, of 41.2%, had electricity, and lead, mushrooms and fruit products.

It is clear that Kosovo's economy will not have nearly the damage of the customs war with Serbia in contrast to the Serbian economy, which will have difficulties to find new markets if they lose Kosovo. Former Secretary of State in the Ministry of International Economic Relations of Serbia, which was highly active in the preparation of the signing of the CEFTA agreement **Vlatko Sekulovic** warned that **"Serbia, given the level of exchange, has no other industry that could compensate for the loss in trade with Kosovo"** . **"We can not live in the illusion of some past times when people were saying: those who will not be with us, will live worse than we do. Unfortunately, it proved the opposite. I think that the solution must and can be found,"** said Sekulovic. His statement just shows that the Kosovo government, as well as those in the international community who blessed such a decision, calculated that the Serbian economy, exhausted by wars and UN economic sanctions and affected by the global economic



crisis cannot withstand the economic shock, or loss of the market. Besides Serbian businessmen the citizens of Kosovo will also have the damage. The goods will go roundabout, through well-established smuggling channels, and neighboring countries, or through an intermediary. They will earn on the transfer of goods, and higher price will be paid by Kosovo citizens who will buy more expensive goods, as well as by the Serbian economy with the more expensive goods on the Kosovo market and therefore less competitive. Serbia has decided not to fight back the decision of the Kosovo government in the same way. Serbian President **Boris Tadic** said that **"Serbia will not reciprocate the countermeasures against the decision of the Kosovo authorities."** He described Pristina's decision as **"a gesture of hostility and provocation"**, saying that such a unilateral act of Pristina could not pass without **"some kind of international sponsorship."** He added that he talked on Wednesday with the head of European diplomacy **Cathrine Ashton** and received assurances that the EU will not support this decision. **"We are carefully monitoring what will be the reaction of the EU and the U.S.. If Serbia did something like this, we would be accused by the international community,"** Tadic concluded. Serbia's decision is both wise and responsible, and the only possible. The Kosovo exports to Serbia is so small that the ban of imports of goods from Kosovo, would not have caused harm to most people, and by responding in the same way the Serbian Government would give an alibi to the Government of Kosovo for making such a decision.

The decision of the Kosovo government has not only caused harm to the fragile relations between Belgrade and Pristina, but also the CEFTA (engl. Central European Free Trade Agreement) agreement signed between Serbia and Kosovo (on behalf of Kosovo the agreement was signed by the United Nations Mission - UNMIK), which is regulating trade in the region. So far full liberalization of industrial goods trade was achieved within CEFTA, and in agriculture certain measures of trade protection are applied in accordance with EU and WTO, provided that no party can unilaterally adopt measures to protect its own market. CEFTA trade agreement now takes between Albania, Bosnia and Herzegovina, Macedonia, Moldova, Serbia, UNMIK on behalf of Kosovo, Croatia and Montenegro. This agreement has emerged 21st December 1992, when it was drawn up in Krakow, from so-called *Višegrad* group: Poland, Czechoslovakia and Hungary. Later on Slovenia (1996), Romania (1997), Bulgaria (1998), Croatia (2002) and Macedonia (2006) became members. Poland, Czech Republic, Slovakia, Slovenia and Hungary are now former members of CEFTA, having joined the European Union in 2004. CEFTA is an agreement, which now defines a single free trade zone in Southeast Europe, although the name of the agreement describes the agreement of Central Europe. It was decided to expand the Agreement in order to include Albania, Bosnia and Herzegovina, Moldova, Serbia, Montenegro and UNMIK (on behalf of Kosovo), and the previous matrix of bilateral free trade agreements within the Stability Pact for South Eastern Europe, at a summit of Southeast Prime Europe, in



Bucharest, 6th April 2006. The new agreement was signed on 19 December 2006. at the summit of South East Europe Prime Ministers in Bucharest, and it was ratified 31 March 2007. and entered into force on 1 May 2007. The aim of the Agreement is to expand trade in goods and services, strengthening investment, removing barriers to trade among CEFTA members, the use of modern trade and economic policies and legal framework. The agreement in accordance with the regulations and procedures of the WTO and signatories of the EU provides a framework to prepare for EU accession. Serbia's presided CEFTA last year and this year Kosovo has the presidency. Violation of the CEFTA and European Union mediation is the map on which Serbia will play. Regarding the decision of the Kosovo Government Serbian Chamber of Commerce (SCC) said that **"the administration in Pristina drastically violated the Agreement on Free Trade Area (CEFTA) when it made a decision on the embargo on goods from Serbia."** Serbian businessmen called for the ads on the occasion of this decision the EU institutions, the Committee of CEFTA and all countries - signatories of CEFTA. Chamber of Commerce has sent letters to high representatives of the EU's foreign affairs and security Catherine Ashton, Head of EU Delegation in Belgrade Vincent Degert, director of the CEFTA Secretariat Renata Vitez, Serbian Prime Minister, ministries and other relevant institutions. Head of EU Delegation in Serbia Vincent Degert said , on the occasion of Serbian businessmen letter, that the European Commission (EC) has discouraged the introduction of customs duties and stamp of

Kosovo for the delivery of goods from Serbia and that **"all parties must comply fully with the CEFTA agreement, which provides for special conditions to address disputes and the need to meet all eight CEFTA parties."** The Kosovo Government accuses Serbia in breach of the CEFTA agreement two and a half years ago when the Kosovo authorities unilaterally declared independence. At that time, Kosovo's authorities took over duties from UNMIK and changed the seals. The change was not recognized by Serbia because the CEFTA agreement was signed by UNMIK on behalf of Kosovo. Serbia claims that Pristina unilaterally changed the CEFTA agreement by this decision, and that it can be changed only with the consent of **"all Member States, following the signing of specific international agreement."** The Kosovo Government had another reason for the adoption of this controversial decision. Due to negotiations with Serbia, Kosovo Prime Minister **Hashim Thaci** and his cabinet were severely criticized by the opposition, which initiated a debate in the Assembly. The government's majority rejected the proposals of the opposition, which, among other things, sought to annul all agreements reached with Belgrade, the Assembly adopted a negotiating platform, and that any agreement reached must be ratified by two-thirds majority in the Assembly. Thaci's government refused these requests, because doing so would have no leeway to deal with Serbia on any matter. Thaci and international mediators understand that no compromise is no agreement and therefore he did not want any Assembly decision to tie his hands. However, the opposition's stance that



"Kosovo is defeated in the negotiations with Belgrade," is widely accepted in Kosovo's public and that inflicts political damage to the ruling coalition. Therefore what Thaci needed was a "patriotic" move that would show people that there is "a firm stand" against Serbia. With the decision to ban import of Serbian products Thaci made political points. However, the problem with such extreme political moves is that they deliver positive points for anyone who supports them only in the short term. The reason is that this ruling only favors the extremists and raise unrealistic expectations among the citizens. Sooner or later a compromise has to be found and then very often the ones who make extreme decisions become victims of their own attempts to curry favor with public opinion, rather than to make statesmanlike and responsible decisions in the interests of their citizens. The Serbian government has no problem with most opposition parties regarding negotiations with the Kosovo Government. The largest opposition parties, who expect to be part of regular government after parliamentary elections, just want to finish the current government unpopular work. The Serbian government, somehow at the same time when the customs crisis with Kosovo began, arrested the last war crimes suspect, former Serb leader from Croatia Goran Hadzic and delivered him to the International Criminal Tribunal for crimes committed in former Yugoslavia in The Hague. This act ended Serbian cooperation with ICTY and removed a major obstacle in its path towards EU membership. Completion of cooperation with the Hague Tribunal will not bring a lot of points in the local public in the

short term to Serbian Government, but will allow it to become a candidate for EU membership. Serbian Government has no problem with his own opposition regarding negotiations on Kosovo, but stronger demands for Serbian parliament to discuss negotiations on Kosovo can be expected if the customs crisis continues. That is exactly what the government wants to avoid. If the crisis continues, the Serbian Government will be under increasing pressure from domestic public to respond to this measure. In addition, it is reasonable to expect that the Serbian companies, who have any losses due to the decision of the Kosovo Government, will resort to some kind of protest. The Kosovo Government and those in the international community who did not bless this decision hope that the economy will put pressure on the Serbian Government. However, they forget that Serbia and Kosovo are both in the Balkans. It can easily happen that these companies resort to measures which are directed against the Kosovo Government, such as blockades of border crossings. We should not forget the Serbs in Kosovo, especially those in the north. "The north of Kosovo" is leaning on Serbia and covers an area of about one thousand square kilometers, which amounts to about ten percent of the territory of Kosovo, where in four municipalities, according to estimates, live from 80 - 100 thousand Serbs. There are two "border crossings" with Serbia in the "northern territory". Serbs in northern Kosovo oppose talks with Pristina, and now we can only imagine their reaction when they are not able to buy Serbian goods. Otherwise, two of the four Serbian municipalities have cut all contacts with EULEX



(European Union Rule of Law Mission in Kosovo), the rule of law mission of the European Union in Kosovo.. The reason for this decision of Serbs is an order of EULEX on "rotation" of police station commanders in the north. In fact, the Kosovo police (Kosovo police service - KPS) is one of the few multi-ethnic institutions in Kosovo, where Serbs and Albanians work together. In the north of Kosovo about 350 Serbian policemen work and they are arranged in four stations, and the two border crossings. At the request of EULEX it was decided on the "rotation of the station commanders." This decision was rejected by the commanders of police stations, and the Serbian police, and supported by representatives of Serbian municipalities in northern Kosovo. Due to the refusal of the decision on rotation, Director of KPS **Reshat Maliqi** suspended them. After that two of the four Serbian municipalities severed cooperation with EULEX. The most interesting is that the Serbian police and a director of KPS Reshat Maliqi, who is Albanian, have almost the same opinion about this problem. He told the Serbian daily newspapers *Politika* that it was a **"political game"** and that **"the worst thing is professional police officers will lose their jobs."** **"There was enough time for EULEX with parallel structures consider this question, or to speak with suspended police officers, because this was not my idea nor the idea of the Directorate. It just came from EULEX,"** said Maliqi.

Now what can happen in the north, where six police stations do not recognize the decisions of Pristina, and two municipalities do not cooperate with EULEX because of the lack of

goods from Serbia, we can only imagine. The impression is that those behind these valid decisions play a match next to a barrel of gunpowder. At present more than 100 trucks of Serbian products are "trapped" at the administrative crossing Merdare, and transport companies have sent an ultimatum to EULEX to enable them to continue their journey, or they will, as announced, **"block the main road crossing Nis - Pristina."** If it happens, another recently reached agreement between Belgrade and Pristina on the free movement will become **"a dead letter."** Simply, ordinary citizens will not be able to move between Serbia and Kosovo. At the same time the head of the Kosovska Mitrovica District (Serbian administrative districts are structures in northern Kosovo that only Serbs recognize, and Albanians call "parallel structures") **Radenko Nedeljkovic** said that **"Serbs will strongly oppose the use of all resources that will allow the implementation of the decision to ban transfer of Serbian goods"** over the two crossings in northern Kosovo. Everything that happens around the customs war threatens to undo the successes towards normalization of relations between Belgrade and Pristina, and between Serbs and Albanians. If this situation persists, it will have a negative impact on Serbian citizens support to EU integration. How it can look like Deputy Prime Minister of Serbia and the leader of the ruling coalition of the Socialist Party of Serbia (SPS) **Ivica Dacic** explained. **"If someone in the EU does not want Serbia to become a member, let him say it. If EU does not want us, then we will live without it,"** said Dacic. Stressing that Serbia would not do anything



against itself only to become an EU member, Dacic said that **"if recognition of Kosovo is a condition, then Serbia should clearly say that it does not accept."**

The European Union has invested a lot of effort to begin resolving open issues through Belgrade-Pristina talks. The Serbs and Albanians, and the EU itself understand that these negotiations will end up with lasting resolution of relations between Belgrade and Pristina. This was confirmed by **Stefan File**, European Commissioner for Enlargement, who said that Serbia **"cannot become an EU member without a solution to the Kosovo problem."** **"It is for Belgrade and Pristina, with the assistance of the European Union, to find a solution,"** said File. The customs war which is currently going on is threatening to cancel all the successes of the EU in solving the problem.

The key to solving the problem is on the route Belgrade - Pristina - Brussels, with a patient negotiation and resolution of open issues. Both Belgrade and Pristina are in Europe. So it is time to stop taking decisions concerning Kosovo outside the European continent, or at least to be in agreement with Brussels. The European Union would have to disclose to Pristina, and the United States.